

Sandon Capital

*'Ever since 1934 we have argued in our writings for a more ...
energetic attitude by stockholders toward their management'*

Ben Graham, The Intelligent Investor

FY19 Shareholder Presentation

31 October 2019

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This presentation has been prepared for use in conjunction with a verbal presentation and should be read in that context.

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Corporate Update

- The Mercantile takeover closed on 9 September and on 13 September new SNC shares were issued as consideration.
- SNC now has:
 - Gross assets in excess of \$120 million
 - Net assets of ~\$100 million
- The new SNC Board comprises:
 - Gabriel Radzyninski, Chairman
 - Sir Ron Brierley, Non-executive director
 - Melinda Snowden, Independent non-executive director
 - Peter Velez, Independent non-executive director

Corporate update

- Mercantile 8% unsecured notes (MVTHA) will resume trading on ASX following compulsory acquisition
 - ASX suspended trading while a “reclassification” took place, which required completion of compulsory acquisition
 - Compulsory acquisition is expected to complete shortly
- All terms and conditions of MVTHA remain the same:
 - Interest payments will continue to be paid every 6 months
 - The notes will be redeemed in July 2021

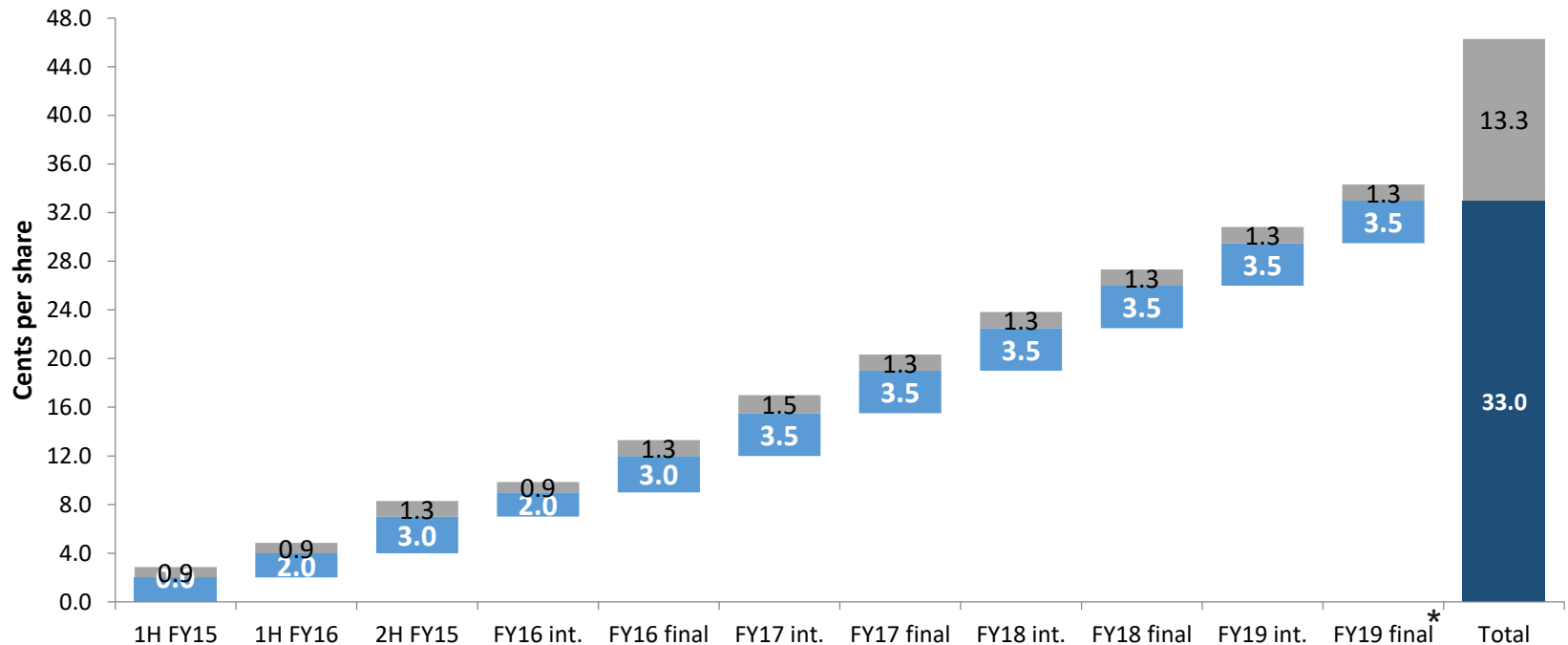
SNC FY19 Result highlights

- Revenue \$1,352,606
- Net loss after tax (\$201,711)
- Dividend yield of 8.5% (11.7% grossed up)¹
- Board has declared a 3.5 cps fully franked final dividend
 - This brings total dividends paid since listing to 33.0 cps
- As at 30 September 2019, SNC has:
 - profit reserves of \$4.9m (4.8 cps), from which directors can resolve to pay future dividends¹
 - a franking account balance of \$13.9m (13.5cps)

1. Assumes market price of \$0.82 on 30 October 2019.

Dividends

➤ Dividend policy is to pay a growing stream of fully franked dividends



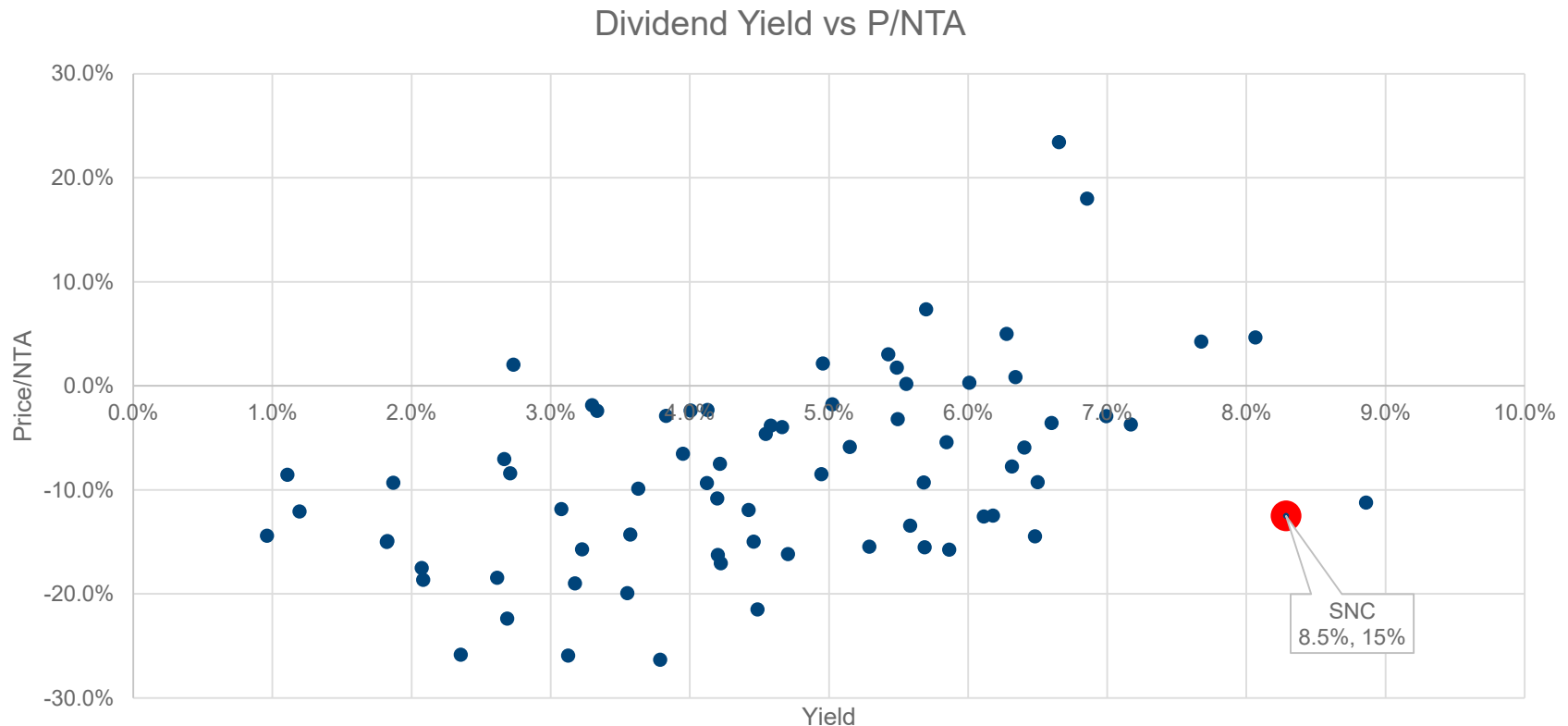
■ Imputation Credits

■ Dividends

* Note: Directors have announced their intention to pay a FY19 final dividend once compulsory acquisition is complete.

High yield, discount to NTA – opportunity?

- SNC shares currently trade at yield of 8.5% (11.7% grossed up for franking) and a discount to NTA of 15%



Investment performance to 30 September 2019

Gross Performance ^{1,2}	1 Month	Financial YTD	1 yr	2 yr p.a.	3 yr p.a.	Since inception (annualised)
SNC^{1,2}	5.1%	7.8%	5.2%	11.2%	10.4%	10.3%
All Ordinaries Accumulation Index	2.1%	2.8%	12.1%	13.4%	11.7%	9.7%
outperformance	+2.9%	+5.0%	-6.9%	-2.2%	-1.3%	0.6%

1. The SNC and index returns are before all fees and expenses and before any taxes. SNC returns are after brokerage expenses incurred. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Note: past performance is no indication of future returns.

Our shareholder activist approach

- We are a 'Value Investor'
- We seek to invest:
 - At prices below our assessment of their intrinsic value, and
 - Where we believe we can apply our activist techniques
- When we invest our intention is to actively engage with the company
 - We don't try to passively predict the future; by engaging we are actively trying to shape the future
- Our investors capital is precious, we will not put it at risk for the sake of being fully invested
 - We typically hold a significant amount of cash in our portfolios – but not currently
 - We have ~15% of the portfolio in cash, event-driven and run-off opportunities – these will turn to cash in due course
 - That cash will allow us to take advantage of opportunities

Investment objectives and outcomes

➤ Sandon Capital Investments Limited's objectives are to:

- Provide an absolute positive return over the medium- to long-term
- Preserve shareholder capital
- Deliver regular and growing dividends, franked to the fullest extent possible¹

➤ Sandon Capital Investments Limited outcomes are:

- Positive absolute returns
 - Gross return of 10.3% per annum since inception during challenging market conditions²
- Capital preservation
 - Pre-tax/Post-tax NTA up 31% / 29% respectively³
- Regular and growing dividends paid
 - 33.0 cents per share in fully franked dividends (includes the intention to declare 3.5 cps final FY19 div)

1. This is not intended to be a forecast. It is merely an indication of what SNC aims to achieve over the medium to long term (that is, 3 to 5 years). SNC may not be successful in meeting its objective. Any financial market turmoil or an inability by the Manager, Sandon Capital Pty Ltd, to find and make profitable investments will likely have an adverse impact on achieving this objective. Returns are not guaranteed

2. Gross returns to 30 September 2019.

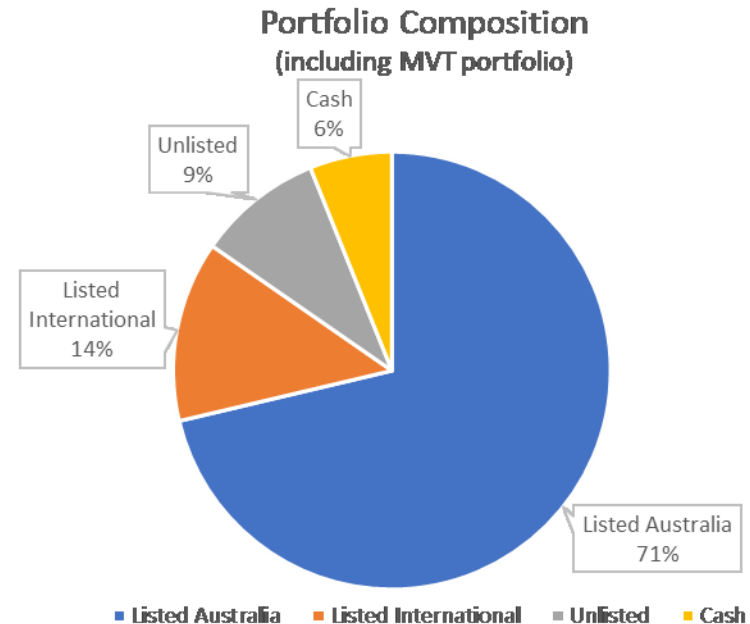
3. Pre- and Post-tax NTA from 16 Dec 2013 to 30 September 2019, including dividends paid. This figure is not annualised. Annualised figures are 4.7% and 4.4% respectively.

Portfolio snapshot

➤ SNC's portfolio is more diverse following inclusion of MVT's portfolio

➤ It remains concentrated:

- Top 5 listed investments represent ~34%
 - Fleetwood Corporation Ltd (8.9%)
 - Ingenia Communities Group (8.7%)
 - Spectra Systems plc (7.5%)
 - Consolidated Operations Group Ltd (5.5%)
 - Coventry Group Ltd (4.3%)



Portfolio composition as at 30 September 2019. All figures are approximate.

➤ International exposure to UK and NZ

➤ Unlisted exposures include:

- Foundation Life – life insurance run-off
- RMA – Singapore shipping agency
- ASK Funding – loan run-off
- IPE – private equity funds run-off

Company Description

- Iluka Resources (ILU) is the major producer of zircon globally and largest producer of high-grade titanium dioxide products (rutile and synthetic rutile). The company also has an iron ore royalty associated with BHP's Mining Area C (MAC) province in Western Australia
- The company reports two operating segments:
 - Mineral Sands – 91% CY18 EBITDA
 - MAC Royalty – 9% CY18 EBITDA
- The company has a market capitalisation of ~A\$3.7bn¹
- The Balance Sheet is in good condition with minimal net debt of A\$109m² at 31 July 2019
- We believe ILU is worth between \$11-\$14 per share on a sum-of-parts basis. This presentation details our valuation thesis

1. Based on a closing share price of A\$8.81 on 30 October 2019

2. Per the company's 1H19 Appendix 4D

Our Investment Thesis – Overview

- ILU's MAC royalty is the best asset in the Australian mining sector and the best royalty anywhere in the world today
- Mining Area C is one of the lowest cost iron ore mines globally
- However, the company's share price is predominantly driven by the idiosyncrasies of the mineral sands market and the operating performance of the mineral sands assets
- We first detailed our thesis on November 2016, calling for a separation of the two businesses
- Today, ILU has announced a review to consider the optimal corporate and capital structure for the two businesses. This is a significant first step.

Our Investment Thesis – Sum-of-the-Parts

- We believe ILU could be worth \$11-14 per share if the MAC Royalty was spun out as a separate entity

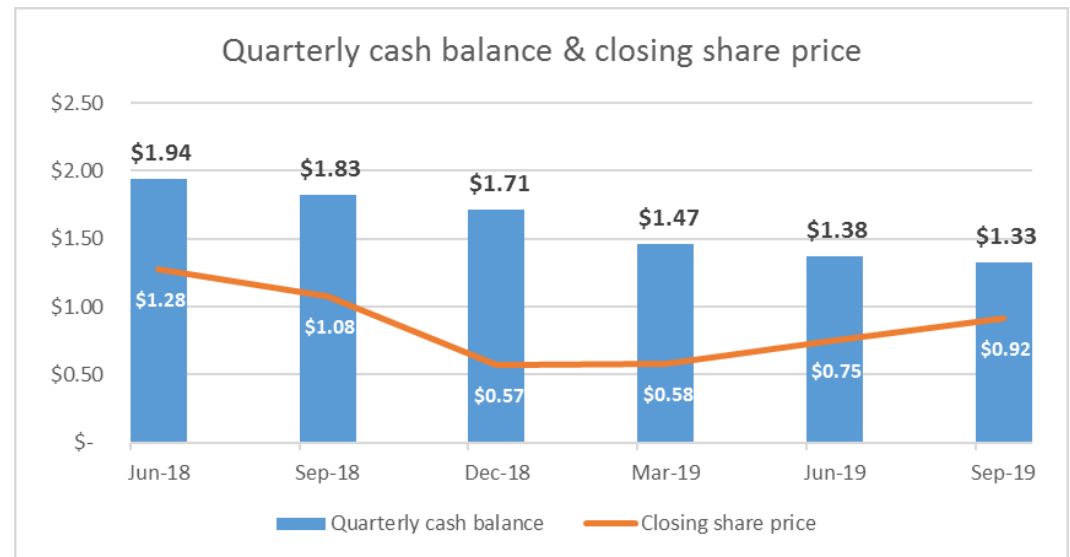
	Basis	Multiple Range		Value	
MAC Royalty (inc. South Flank)	EBITDA multiple	16.0	18.0	2,237.2	2,516.9
Mineral Sands	CY18 EBITDA multiple	5.0	7.0	2,599.0	3,638.6
Enterprise Value				4,836.2	6,155.5
less: net debt				108.7	108.7
Equity Value				4,727.5	6,046.8
Shares on issue				422.5	422.5
Equity Value per share				\$11.19	\$14.31
Market price at 30-Oct-19				\$8.81	

Case Study – Consolidated Operations Group Limited (ASX: COG)

- COG provides SME leasing and controls the largest finance broker and aggregation network in Australia (~16% market share)
- COG is undervalued and unappreciated by the market. We believe two major factors explain for this:
 - Complexity: its accounts have been difficult to decipher, in part due to changing from being an investment entity to consolidated one. Poor communication did not help
 - Liquidity: top three shareholders account for ~52% of shares on issue
- SME finance is a significant opportunity, not only for organic growth, but also for consolidation
 - Consolidation is a key part of COG's strategy: the recent tilt at Thorn Business Finance is illustrative
- Obtaining lower cost funding sources for leasing and offering own-products (for example, warehousing and securitising) will yield significant gains
- We would like to see COG pay a small dividend

Case Study – OneMarket Limited (ASX: OMN)

- OneMarket was spun-out from Westfield when it merged with Unibail-Rodamco
 - it listed as a tech company with REIT shareholders – a mismatch
- It debuted on 31 May 2018 at \$1.53 per share, its highest price ever
- There were high hopes for its technology, which sought to assist brick-and-mortar retailers in their battle against online giants
- At the AGM, the company announced a strategic review was underway
- On 30 September 2019, the Board announced an orderly wind-up and distribution of assets



Case Study – City Chic Collective Limited (ASX: CCX)

- CCX is a focused omni-channel (online and bricks & mortar) retailer.
- It continues to generate strong free cash flow and has been able to grow sales 12% in what is described as a tough retail environment
- It recently announced the acquisition of an online retailer in the US, from a bankruptcy sale – we expect this will be profitable from day one
- SNC has sold down approximately half its holding. This was a portfolio decision, not a view on CCX's prospects
- CCX continues to be a significant position (~5%)



Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
 - China – regional aims/boom/bust/trade wars
 - US – President Trump/trade wars
 - Australia – China/US/trade wars
- We will continue to invest at prices below intrinsic value and apply our activist techniques
- We believe our fundamental approach will continue to uncover attractive opportunities with shareholder activism unlocking value

About us

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